

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
POOLED LOAN PROGRAM, 1985 SERIES B**

EXECUTIVE SUMMARY

Applicant:	Salud Para La Gente, Inc. ("Salud") 204 E. Beach Street Watsonville, California 95076 Santa Cruz County	Amount Requested: \$2,170,000 Loan Term: 6 years Date Requested: August 26, 2004 Resolution Number: P-39	
Project Sites:	204 E. Beach Street, Watsonville, California 212 E. Beach Street, Watsonville, California 45 Nielsen Street, Watsonville, California		
Facility Type:	Community Clinic, Adult Day Health Center		
Uses of Loan Proceeds: Proceeds will be used to refinance existing loans and leases.			
Type of Issue:	CHFFA's 1985 Series B Pooled Loan Program (PLP), 7 day Variable Rate		
Existing Borrower:	No		
Credit Enhancement:	Financial Guaranty Insurance Company ("FGIC"), <i>as bond insurer</i> First National Bank of Central California, <i>Letter of Credit provider</i>		
Expected Credit Rating:	Aaa/AAA Moody's/Standard & Poor's (based on FGIC Insurance)		
Senior Underwriter:	Not Applicable		
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP		
Financial Overview: Salud is a rapidly growing organization that has remained consistently profitable. However, Salud has become significantly leveraged and debt service coverage is marginal.			
Sources of Revenue (\$000's): (FYE 6/30/03)			
	<u>Amount</u>	<u>Percent</u>	
Program service fees	\$4,305	67%	
Grant revenues	1,771	27%	
Net assets released from restrictions/Other	<u>382</u>	<u>6%</u>	
Total	<u>\$6,458</u>	<u>100%</u>	
Sources of Funds:		Uses of Funds:	
1985B loan	\$2,170,000	Refinance loans/leases	1,993,918
		Financing costs	<u>176,082</u>
Total Sources	<u>\$2,170,000</u>	Total Uses	<u>\$2,170,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution providing for a Pooled Loan Program 1985 Series B Bonds loan in an amount not to exceed \$2,170,000 for Salud Para La Gente, Inc., subject to a stand-by letter of credit as required by FGIC.			

STAFF SUMMARY AND RECOMMENDATION

Salud Para La Gente, Inc. (“Salud”)

August 26, 2004
Resolution Number: P-39

- I. PURPOSE OF FINANCING:** Salud seeks to refinance existing loans and leases. This will result in a saving of approximately \$106,000 in interest expense over six years.

Refinance existing loans and leases* **\$1,993,918*

Salud plans to refinance the following loans and leases:

Santa Cruz Community Credit Union \$111,857
Loan was used to renovate a dental clinic. The original loan amount was \$250,000 with an interest of 9%.

NCB Development Corporation..... 446,255
Loan was used to purchase property in Watsonville. The original loan amount was \$450,000 with and interest rate of 6.25%.

CPCA Ventures..... 571,750
Two loans totaling \$600,000 was used to renovate property in Watsonville and purchase dental equipment. The original loan on the 1st loan amount was \$400,000 (renovation) with a balance of \$400,000 and the original loan amount on the 2nd loan was \$200,000 (equipment) with a balance of \$171,750. The interest rate on both loans is 3%.

First National Bank 525,106
Consolidate two equipment leases with Paterson Dental Supplies and Banc of America Vendor Financial as well as leasehold improvements as Salud’s Elderday Pajaro Valley. The original lease amount was \$525,106 with an interest rate of 8.75%.

First National Bank 250,000
This loan was used to provide leasehold improvement at the Elerday Pajaro Valley. The original amount was \$250,000 with an interest rate of 6.75%.

HPSC..... 88,950
This lease was used to lease Data Process Equipment. The original amount of the lease was \$156,382.

Financing Costs	<u>176,082</u>
FGIC Insurance Premium	\$32,000
Loan Discount	43,335
Letter of Credit.....	27,125
Application fee.....	12,478
Legal costs.....	5,000
Other costs.....	56,144
 Total Uses of Funds	 <u>\$2,170,000</u>

Financing Structure:

- Proposed loan to be funded under the Pooled Loan Program 1985 Series B Bonds. (See below for a description of the program).
- Secured by Financial Guaranty Insurance Company (“FGIC”) bond insurance with an approved Stand-by Letter of Credit to be issued by First National Bank of Central California.
- Variable interest rate with a 7-day reset.
- Loan term not to exceed 6 years.

Description of 1985B Program:

The Authority established the 1985B Program in October 1985 with a \$100 million bond issue. To qualify for participation in the program, the healthcare provider must be an eligible health facility, as defined in the Authority’s statute and the project to be funded must be an eligible project under the statute. The bonds are rated “AAA” based on FGIC bond insurance. FGIC normally requires a stand-by Letter of Credit for each loan approved.

In addition to bond funds, monthly borrower repayments into the program are available for new loans (recycling), with the limitation that any loan term cannot exceed the bond’s maturity date of August 23, 2010. After a number of bond redemptions over the years, the program currently has \$24.9 million in bonds outstanding, a \$13 million reserve fund, \$8.1 million in existing loans, and \$5.7 million of available, loanable funds.

One benefit of the program is its low, tax-exempt interest rate. The rate is set weekly, averaging .99359% for 2003, and approximately 1% since the beginning of this calendar year. Another significant advantage is borrower payment offsets. Any earnings on the invested reserve funds over amounts required to pay bondholders are proportionately distributed to borrowers to offset their payments.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Salud Para La Gente, Inc. Statement of Activities (\$000's)

	2004 (unaudited)	For the year ended June 30		2001
		2003	2002	
Revenue:				
Grant Revenues	\$ 1,828	\$ 1,771	\$ 2,141	\$ 1,703
Program Service Fees	7,003	4,305	3,384	2,206
Miscellaneous Income	44	46	3	6
Net Assets Released from Restrictions	-	336	58	-
Total support and revenue	<u>8,875</u>	<u>6,458</u>	<u>5,586</u>	<u>3,915</u>
Expenses:				
Salaries & benefits	4,662	3,161	2,799	1,829
Salaries & benefits - Mgmt and General	1,224	893	864	706
Contract Services	893	597	401	246
Supplies	699	458	424	219
Utilities	67	69	49	47
Insurance	195	90	57	42
Occupancy	271	166	263	132
Travel	61	58	50	34
Education and training	35	61	41	16
Interest	174	193	185	150
Depreciation	263	246	167	96
Telephone, postage and printing	105	92	106	87
Miscellaneous expense	187	60	129	87
Total expenses	<u>8,836</u>	<u>6,144</u>	<u>5,535</u>	<u>3,691</u>
Increase (decrease) in net assets	39	314	51	224
Net assets, beginning of year	811	497	446	222
Net assets, end of year	<u>\$ 850</u>	<u>\$ 811</u>	<u>\$ 497</u>	<u>\$ 446</u>

Salud Para La Gente, Inc.
Statement of Financial Position (\$000's)

	<u>As of June 30</u>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
ASSETS	(unaudited)			
Current assets:				
Cash	\$ 446	\$ 1,034	\$ 372	\$ 497
Accounts Receivable	1,490	403	897	732
Grants Receivable	170	233	-	90
Other Receivable	-	5	327	-
Total Current Assets	<u>2,106</u>	<u>1,675</u>	<u>1,596</u>	<u>1,319</u>
Property and Equipment, net	<u>4,087</u>	<u>2,822</u>	<u>2,916</u>	<u>2,306</u>
Total assets	<u>\$ 6,193</u>	<u>\$ 4,497</u>	<u>\$ 4,512</u>	<u>\$ 3,625</u>
LIABILITIES & NET ASSETS				
Current liabilities:				
Accounts Payable	\$ 687	\$ 39	\$ 326	\$ 275
Accrued Salaries and Benefits	374	184	140	127
Accrued Vacation	277	150	135	97
Deferred Revenue	-	-	-	48
Current Portion of Long-Term Debt	<u>260</u>	<u>265</u>	<u>235</u>	<u>147</u>
Total current liabilities	<u>1,598</u>	<u>638</u>	<u>836</u>	<u>694</u>
Long-Term Debt, net of Current Portion	<u>3,217</u>	<u>2,522</u>	<u>2,718</u>	<u>2,485</u>
Total liabilities	4,815	3,160	3,554	3,179
Net assets:				
Unrestricted	850	811	497	446
Temporarily Restricted	<u>528</u>	<u>526</u>	<u>461</u>	<u>446</u>
Total net assets	<u>1,378</u>	<u>1,337</u>	<u>958</u>	<u>446</u>
Total liabilities and net assets	<u>\$ 6,193</u>	<u>\$ 4,497</u>	<u>\$ 4,512</u>	<u>\$ 3,625</u>
Financial Ratios:	Proforma ^(a)			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Debt Service Coverage (x)	1.07	1.66	1.22	1.41
Debt/Unrestricted Net Assets (x)	3.44	3.44	5.94	5.90
Margin (%)		4.86%	0.92%	5.72%
Current Ratio (x)		2.62	1.91	1.90

(a) Recalculates 2003 audited results to include the impact interest savings from of this proposed financing as well as the additional debt service payments from new loans incurred in fiscal 2003-4.

Financial Discussion:

Salud is a rapidly growing organization that has remained consistently profitable

Salud has grown rapidly, with the introduction of additional clinic facilities, the addition of dental services, and opening of adult day health care facilities. Total clinic encounters have more than doubled since 2000. Salud has been consistently profitable in our review period, although margins fell in 2002 and in 2004, due in part to startup costs in providing new services. For example, in 2002 growth in expenses outpaced revenue growth, leading to a margin of 0.9%, but Salud produced a 2003 margin of 4.9% as utilization increased. Management attributes 2004's decline in net income to startup costs associated with the dental clinic and adult day health care center. Salud is aided by the fact that it is an FQHC and thus is reimbursed on a cost basis.

Salud is significantly leveraged and debt service coverage is marginal

With the acquisition of additional facilities, Salud has increased its long-term debt by approximately \$1 million since 2001, leading to a proforma debt-to-unrestricted net asset ratio of 3.44x as of June 2003. With the addition of substantial new debt in 2004, Salud's proforma debt service coverage is a marginal 1.07x based on audited 2003 financial statements. The proforma ratio drops to 0.86x based on unaudited 2004 figures.

III. BACKGROUND:

Salud was organized in 1980 to provide affordable health care services for low-income residents and farm workers of the Pajaro Valley in south Santa Cruz and northern Monterey Counties. It started in a warehouse providing free well-baby clinic service to farm workers' children. Salud has a staff of approximately 140 employees, including physicians, nurses, administrative, professionals, and ancillary personnel.

Salud operates four clinics, providing an array of medical services, including prenatal and perinatal care, as well as chiropractic care, dental care, optometry, and health education. Services are provided in-house as well as at local schools and farm labor camps. Salud also maintains two adult day health care facilities. Salud has a staff of approximately 140 employees.

Licenses: Salud is licensed as a community clinic and adult day health center by the Department of Health Services.

Service Area, Competition, and Market Share: Salud's sole competition in providing comprehensive primary health care in its service area is the County clinic.

IV. UTILIZATION STATISTICS:

	Salud Para La Gente, Inc.			
	Calendar Year			
	2003	2002	2001	2000
Clinics:				
Medical encounters	43,346	31,827	26,274	24,866
Dental encounters	10,944	9,972	2,510	0
Total	54,290	41,799	28,784	24,866
Adult Day Health Care Center:				
Patients Visits	16,170	15,925	14,210	13,475

V. SECTION 15438.5 OF THE ACT (Savings Pass Through).

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Salud has provided a description of its savings pass through in **Attachment A**.

VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

A copy of Salud's certification is included as **Attachment B**.

VII. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 06/30/03 ^(a)	Estimated Amount Outstanding After Proposed Financing
Existing:			
CSCDA, 4/2000 Note payable	2,285,000	2,061,667	2,061,667
NCB Corp, 6/2003 Note payable	200,000	200,000	200,000
Santa Cruz Community Credit Union, 4/2001 Note payable	250,000	157,876 ^(b)	0
Banc of America Vendor Finance, Inc., 9/2001 Note payable	67,411	38,059 ^(c)	0
Banc of America Vendor Finance, Inc., 1/2002 Note payable	77,594	55,609 ^(c)	0
Patterson Dental Supply, Inc., 8/2001 & 9/2001 Note payable	252,889	155,692 ^(c)	0
HPSC, Inc., 10/2001 Note payable	156,382	117,870 ^(b)	0
NCB Develop Corp, 2/2004 ^(b) Note payable	450,000	-	0
CPCA, 8/2003 & 6/2004 ^(b) Note payable	600,000	-	0
First Ntl. Bank, 5/2004 ^(b) Note payable	250,000	-	0
First Ntl. Bank, 6/2004 ^(c)	525,106	-	0
Proposed:			
CHFFA, 2004		N/A	2,170,000
TOTAL DEBT		<u>\$2,786,773*</u>	<u>\$4,431,667</u>

*The total amount does not include new debt of \$1,825,106 that was incurred in FY 2004.

(a) Includes current portion.

(b) Since June 2003, Salud Para La Gente borrowed approximately \$1.3 million to purchase and renovate property and to purchase dental equipment. The current outstanding amount of loans to be refinanced is approximately \$1,994,000.

(c) The June 2004 First National Bank loan consolidated existing debt.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution providing for a Pooled Loan Program 1985 Series B Bonds loan in an amount not to exceed \$2,170,000 for Salud Para La Gente, Inc., subject to a stand-by letter of credit as required by FGIC.